

Washington State Auditor's Office
Audit Report

Housing Authority of Mason County
Mason and Lewis Counties

Audit Period
October 1, 1996 through September 30, 1997

Report No. 59076

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June 5, 1998



Washington _____
State Auditor

Brian Sonntag

Audit Summary

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

ABOUT THE AUDIT

This report contains the results of our annual independent audit of the Housing Authority of Mason County for the period October 1, 1996, through September 30, 1997

Our work focused on determining whether the Housing Authority complied with state laws and regulations and federal grant requirements. It included the audit of the financial statements and the internal controls established by Housing Authority management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

RESULTS

In the areas we examined, the Housing Authority of Mason County complied with state laws and regulations and its own policies. In addition, the Housing Authority adhered to requirements of federal financial assistance.

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Description of the Housing Authority

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

DESCRIPTION OF THE HOUSING AUTHORITY

The Housing Authority of Mason County was organized on August 28, 1972. The Housing Authority is funded by the U.S. Department of Housing and Urban Development (HUD) to provide housing for low- and very low-income families.

Mason County Housing Authority has five commissioners who are appointed by the Mason County Commissioners to serve five-year terms.

The Mason County Housing Authority has contracted with the Housing Authority of the City of Bremerton since 1978 to perform administrative services for Mason County Housing Authority including providing all management and accounting services, auditing tenant files, performing reinspections, and preparing and submitting HUD reports.

ELECTED OFFICIALS

Board of Commissioners:

Pat Johnson
Arnold Livingston
Mary Helen Anderson
Jackie Mallon
Donald Cardon

APPOINTED

Executive Director

Merrill Wallace, II

MAILING ADDRESS

Housing Authority

3000 Johns Prairie Road #28
Shelton WA 98584

Audit Areas Examined

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

In keeping with general auditing practices, we do not examine every portion of an entity's financial activities during each audit. The areas examined during an audit are determined by evaluating those which have the highest risk of loss to the entity as well as other factors. Certain areas are reviewed on a rotating basis over the course of several years. The following represents the areas of Housing Authority operations examined in this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Cash receipts
- Conflict of interest
- Open public meetings
- Payroll
- Interfund transactions

INTERNAL CONTROL CATEGORIES

We examined the following categories of the Housing Authority's internal control structure:

- Cash receipting
- Billings and receivables
- Disbursements
- Accounts payable
- Property and equipment
- Payroll

FEDERAL PROGRAMS

The audit of the federal grants adhered to the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement*. We audited the Housing Authority's compliance with the following requirements of federally-funded programs:

- Eligibility
- Occupancy
- Reporting
- Section 8 Rental Assistance

FINANCIAL AREAS

In addition to the testing listed above, the following areas were tested in auditing the financial statements:

- Overall presentation of financial statements
- Cash and investments
- Property, plant and equipment

Audit Overview

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

AUDIT HISTORY

We audit the Housing Authority of Mason County annually. We have reported no findings for the Housing Authority since the 1989-90 fiscal year. Housing Authority officials have taken steps in the past to make improvements and correct areas of concern. The Accounting and Finance Department has shown a strong desire and commitment to develop improved internal controls.

CONCLUSIONS

In the areas we examined, the Mason County Housing Authority complied with state laws and regulations, its own policies and requirements of federal financial assistance. We also found the Housing Authority's financial statements were materially correct.

During the audit, we spent a significant amount of time looking at tenant files to determine if the Housing Authority was verifying eligibility requirements imposed by the U.S. Department of Housing and Urban Development. While we did not examine every record, our testing did not reveal any ineligible tenants.

Federal Summary

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

The results of our audit of the Housing Authority of Mason County are summarized below in accordance with OMB Circular A-133.

- We issued an unqualified opinion on the Housing Authority's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Housing Authority.
- We issued an unqualified opinion on the Housing Authority's compliance with requirements applicable to its major federal programs.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The Housing Authority qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

CFDA Number

14.857

Program Title

Section 8 - Certificates

Independent Auditor's Report On Compliance And Internal Control Over Financial Reporting In Accordance With *Government Auditing Standards*

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

Chairperson of the Board of Commissioners
Housing Authority of Mason County
Shelton, Washington

We have audited the financial statements, as listed in the table of contents, of the Housing Authority of Mason County, Mason and Lewis Counties, Washington, as of and for the year ended September 30, 1997, and have issued our report thereon dated March 23, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of material misstatements, we performed tests of Housing Authority's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional test of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the Housing Authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the Housing Authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the Housing Authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 23, 1998

Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

Chairperson of the Board of Commissioners
Housing Authority of Mason County
Shelton, Washington

COMPLIANCE

We have audited the compliance of the Housing Authority of Mason County, Mason and Lewis Counties, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 1997. The Housing Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority's compliance with those requirements.

In our opinion, the Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 1997.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Commissioners, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 23, 1998

Independent Auditor's Report On Financial Statements Of HUD Supported Programs

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

Chairperson of the Board of Commissioners
Housing Authority of Mason County
Shelton, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) of the Housing Authority of Mason County, Mason and Lewis Counties, Washington, as of and for the year ended September 30, 1997. These financial statements are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HUD supported programs of the Housing Authority and are not intended to present fairly the financial position and results of operations of the Housing Authority of Mason County, taken as a whole, in conformity with generally accepted accounting principles.

The Housing Authority's policy is to prepare its Section 8 Existing Housing Assistance Program Fund, Lewis County Housing Voucher Program, and the Pine Garden Apartment financial statements on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Housing Authority of Mason County as of September 30, 1997, or the results of its operations for the year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Housing Authority of Mason County as of September 30, 1997, and the results of its operations for the year then ended, in conformity with the prescribed basis of accounting.

In our opinion, the Local Fund presents fairly, in all material respects, the financial position of the Housing Authority of Mason County at September 30, 1997, the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 1998, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the respective HUD supported programs and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements of such programs taken as a whole, on the basis of accounting practices prescribed or permitted by HUD.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 23, 1998

Financial Statements

Housing Authority of Mason County Mason and Lewis Counties October 1, 1996 through September 30, 1997

Financial Statements

Section 8 Certificate Program

Balance Sheet - 1997

Voucher for Payment of Annual Contributions and Operating Statement - 1997

Voucher Program (Lewis County)

Balance Sheet - 1997

Voucher for Payment of Annual Contributions and Operating Statement- 1997

Local Fund

Balance Sheet - 1997

Statement of Income and Expenses - 1997

Statement of Cash Flows - 1997

Pine Garden Apartments

Balance Sheet - 1997

Statement of Profit and Loss - 1997

Statement of Cash Flows - 1997

Notes to Financial Statements - 1997

Additional Information

Schedule of Federal Financial Assistance - 1997